

## Message Text

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ACTION HEW-04

INFO OCT-01 NEA-09 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02

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R 310840Z DEC 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 9599

C O N F I D E N T I A L TEHRAN 10971

DEPARTMENT PASS HEW/SSA

E.O. 11652: GDS

TAGS: SWEL, IR

SUBJ: PROBLEMS OF SOCIAL INSURANCE ORGANIZATION

REF: TEHRAN 8636

SUMMARY: MEMBER OF BOARD OF DIRECTORS OF SOCIAL INSURANCE ORGANIZATION (SIO) DISCUSSED SIO OPERATIONS WITH EMBOFFS DECEMBER 23, PROVIDING INFORMATION WHICH MAY BE OF INTEREST TO DHEW/SSA AND TO DEPARTMENT IN CONNECTION WITH JOINT COOPERATION COMMISSION. SOURCE HOLDS REFORM MANDATE FROM SOCIAL WELFARE MINISTER AND SEES NEED FOR IMPROVEMENT IN NEAR FUTURE AS SIO RESPONSIBILITIES WILL SOON BE EXPANDED TO INCLUDE ALL GAINFULLY EMPLOYED IRANIANS. END SUMMARY:

1. DR. JOHN VAFAI, MEMBER OF FIVE-MAN BOARD OF DIRECTORS OF SOCIAL INSURANCE ORGANIZATION, DIVISION OF MINISTRY OF SOCIAL WELFARE, TOLD EMBOFFS DECEMBER 23 THAT, DESPITE ITS 22 YEARS' EXISTENCE, SOCIAL INSURANCE ORGANIZATION (SIO) IS POORLY ORGANIZED AND HAS INSPIRED LITTLE FAITH AMONG IRANIAN PEOPLE. RECENTLY INCORPORATED WITHIN NEWLY FORMED MINISTRY OF SOCIAL WELFARE, SIO HAS NOT PRODUCED FINANCIAL STATEMENT OF RESOURCES NOR HAS IT BEEN  
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INDEPENDENTLY AUDITED FOR THREE YEARS. VAFAI, WHO OBTAINED

HIS POSITION AND MANDATE TO CLEAN UP SIO FROM SOCIAL WELFARE MINISTER SHEIKHOESLAMIZADEH, IS UNABLE TO DETERMINE EVEN IF SIO IS SOLVENT OR BANKRUPT. SIO MAINTAINS ITS OWN SEPARATE AUDITING AND ACCOUNTING DEPARTMENTS HEADED BY THE SAME INDIVIDUAL WHICH, VAFAI IMPLIED, COLLIDE WITH ONE ANOTHER AND WITH OUTSIDE IRANIAN AUDITORS TO HIDE THEIR MALFEASANCE. THEY HAVE ALSO THWARTED VAFAI'S ATTEMPTS TO OBTAIN INDEPENDENT AUDIT BY REFUSING DATA TO TEAM OF BRITISH AUDITORS ON GROUNDS THAT IRANIAN LAW FORBIDS SHARING OF DETAILED FINANCIAL/TAX INFORMATION WITH FOREIGNERS. VAFAI HAS REQUESTED A DETERMINATION IF LAW APPLIES TO HIS ORGANIZATION AND IS ALSO CONSIDERING BRINGING IN IRANIAN CITIZEN AUDITORS WHO WORK FOR FOREIGN AUDITING HOUSES.

2. ADDITIONAL PROBLEM IS POSED BY SIO'S MAINTENANCE OF WELFARE BANK AS DEPOSITORY. BANK PAYS SIO 8PERCENT INTEREST ON DEPOSITS AND MAKES USUAL SHORT-TERM BANKING INVESTMENTS WITH REMAINDER. IRANIAN DOMESTIC INFLATION IS RUNNING IN EXCESS OF 20 PERCENT WHICH ERODES BUYING POWER OF SIO ASSETS DESPITE INTEREST PAID. ORGANIZATION IS UNABLE TO COMPEL ITS SEMI-INDEPENDENT BANK TO MAKE THE SORT OF LONG-TERM INVESTMENTS WHICH OFFSET INFLATION. AS INCOME FROM BANK'S INVESTMENTS IS TAXABLE AND INCOME FROM SIO INVESTMENTS IS NOT, VAFAI WOULD LIKE TO DISSOLVE WELFARE BANK AND CREATE IN ITS PLACE AN SIO INVESTMENT DEPARTMENT BUT THIS HAS NOT BEEN POSSIBLE, HE SAID, BECAUSE HEAD OF WELFARE BANK IS BROTHER OF POWERFUL STATE MINISTER FOR PLAN AND BUDGET ORGANIZATION, ABDOL-MAJID MAJIDI.

3. ALTHOUGH TOTAL AMOUNT OF SIO RESOURCES IS UNKNOWN, VAFAI BELIEVES THEM TO BE LARGE, AS ORGANIZATION TAKES IN 18 PERCENT OF SALARY OF APPROXIMATELY ONE MILLION INSURED WORKERS (EMPLOYERS PAY AMOUNT EQUAL TO 13PERCENT OF WORKERS'SALARIES AND INSURED WORKERS PAY REMAINING 5 PERCENT). INDUSTRIES OR CATEGORIES OF BUSINESS TO BE INSURED ARE CHOSEN ARBITRARILY BY SIO INSPECTORS. A NOTICE PLACED IN A TEHRAN NEWSPAPER SATISFIES LEGAL REQUIREMENT TO INFORM EMPLOYERS REGARDLESS OF LOCATION OF THEIR BUSINESS. HOWEVER, IF EMPLOYERS DO NOT READ THE NOTICE OR IF, AS HAPPENS FREQUENTLY, EMPLOYER AND WORKERS COOPERATE IN UNDERPAYMENT OF WHAT WORKERS

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GENERALLY REGARD AS ADDITIONAL TAXATION, SIO MAY NOT BE AWARE OF EVASION. SIO PROVIDES ESSENTIALLY MEDICAL AND PENSION BENEFITS. UNDER NEW BILL PENDING IN MAJLES, BENEFITS ARE TO BE EXTENDED TO ALL GAINFULLY EMPLOYED IRANIANS. CONTRIBUTION RATE IS TO BE 32PERCENT OF INCOME, 5PERCENT PAID BY EMPLOYEE, 18PERCENT BY EMPLOYER AND 9 PERCENT BY GOVERNMENT. VAFAI FEARS IF SIO UNABLE PROPERLY TO HANDLE SOCIAL INSURANCE FOR ONE MILLION PEOPLE IT UNLIKELY TO

BE ABLE TO ADMINISTER PROGRAM FOR 25 TIMES THAT NUMBER.

4. THOUGH HE SPOKE HIGHLY OF SHEIKH LESLAMIZADEH, VAFAI WAS IMPLICITLY CRITICAL OF WELFARE MINISTRY'S SLOW START. MINISTRY OPERATIONS ARE DIVIDED INTO DEPARTMENTS OF WELFARE, REHABILITATION, HEALTH AND SOCIAL INSURANCE. WELFARE DEPARTMENT IS STILL BEING ORGANIZED AND SIO IS HANDLING HEALTH PLAN UNTIL THAT DEPARTMENT BEGINS FUNCTIONING. SIO ALSO ADMINISTERS SMALL EDUCATION FUND WHICH VAFAI IS CONSIDERING CANCELLING SINCE HE DISCOVERED THAT HALF ITS FUNDS HAVE BEEN USED FOR SPECIAL COURSES FOR SIO EMPLOYEES TAUGHT BY THEIR RELATIVES AND OTHER HALF HAS NOT BEEN SPENT.

5. COMMENT: DR. VAFAI'S DESCRIPTION IS IN KEEPING WITH REPUTATION SIO HAS LONG HAD IN TEHRAN. HE IS HARD-DRIVING AND APPARENTLY WELL-INTENTIONED BUT HIS PROBLEM, AS WITH ALL REFORMING ADMINISTRATORS IN IRAN, WILL BE TO OVERCOME RESISTENCE FROM ENTRENCHED, WELL-CONNECTED AND SOMETIMES CORRUPT BUREAUCRACY.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TECHNICAL ASSISTANCE, SOCIAL INSURANCE, SOCIAL SERVICES, NATIONAL HEALTH SERVICE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 31 DEC 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** MorefiRH  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974TEHRAN10971  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Line Count:** 136  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION HEW  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 TEHRAN 8636  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** MorefiRH  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 AUG 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20 AUG 2002 by izenbei0>; APPROVED <26 DEC 2002 by MorefiRH>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PROBLEMS OF SOCIAL INSURANCE ORGANIZATION  
**TAGS:** SWEL, IR  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005